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August 16, 2002

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Docket No. 01-202 Verizon Petition for Emergency Declaratory and Other Relief; CC Docket No. 01-338 Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; CC Docket No. 96-98 Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; and CC Docket No.98-147 Deployment of Wireline Services Offering Advanced Telecommunications Capability

Dear Ms. Dortch:

On August 15, 2002 Messrs. I. Seidenberg, W. Barr, and T. Tauke and Ms. D. Toben, representing Verizon, met separately with Chairman Powell and Mr. C. Libertelli, Commissioner Abernathy and Mr. M. Brill, Commissioner Copps and Mr. J. Goldstein, and Commissioner Martin and Mr. D. Gonzales (Ms. Toben did not attend this meeting). The purpose of the meeting was to discuss the general state of the telecommunications industry, the condition of Verizon and issues of continuing concern. The Verizon representatives also discussed the impact of auction 35 and the return of the remainder of Verizon's deposit. The attached materials were used in the discussion.

Please include a copy of this correspondence in the public record of the above-captioned proceedings. Any questions on this matter should be directed to me at either the address above or by calling me at 202-515-2527.

Sincerely,

A handwritten signature in cursive script that reads "Gordon R. Evans".

Attachment

cc: Chairman Powell
Commissioner Abernathy
Commissioner Copps
Commissioner Martin
M. Brill
J. Goldstein
D. Gonzales
C. Libertelli



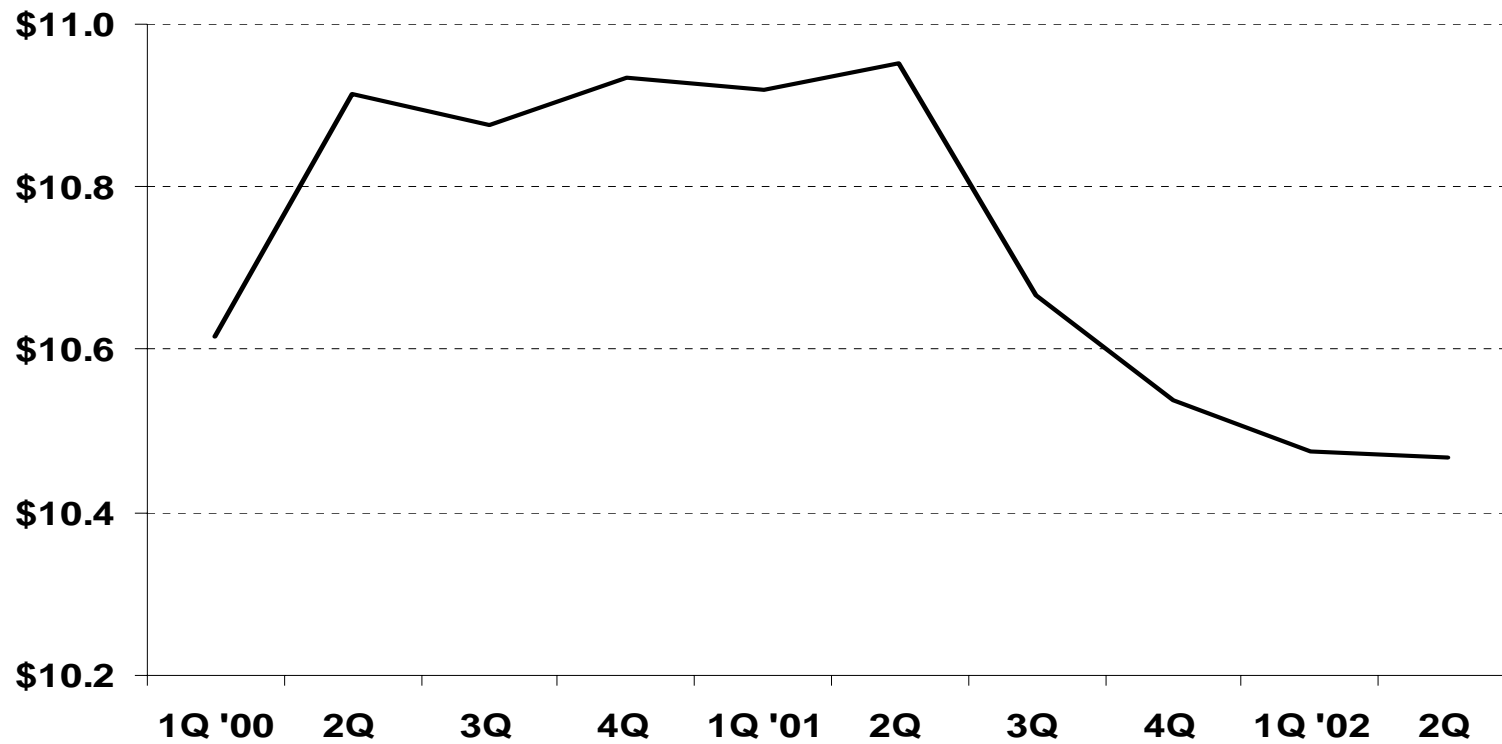
Discussion Charts for Meeting With FCC Commissioners

August 15, 2002

Agenda

- Financial Update
- Competition & Substitution
- Issues of Continuing Concern
 - NextWave Overhang
 - UNE Prices
 - Wholesale Receivables
 - WCOM Bankruptcy
- Next Steps

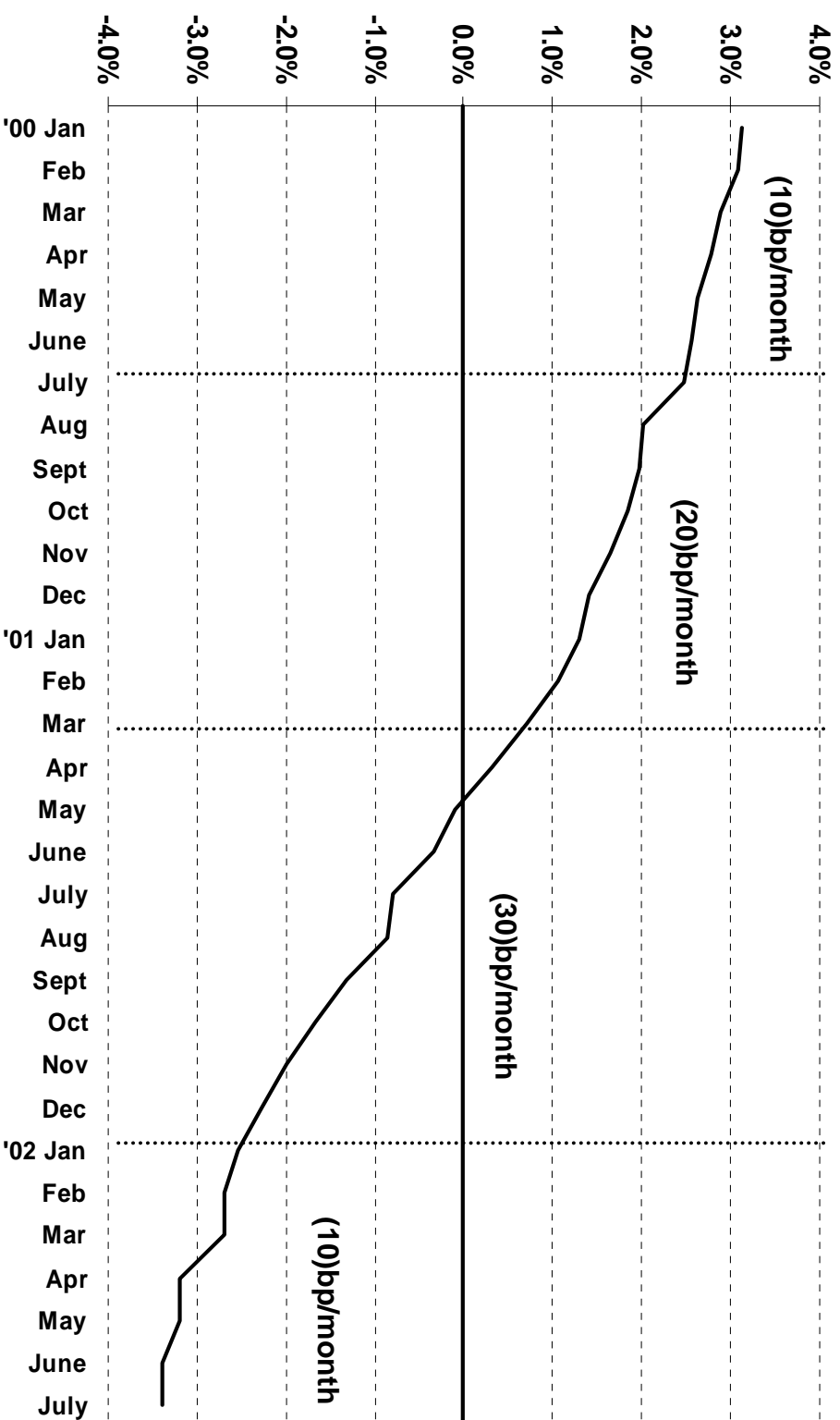
Telecom Revenue



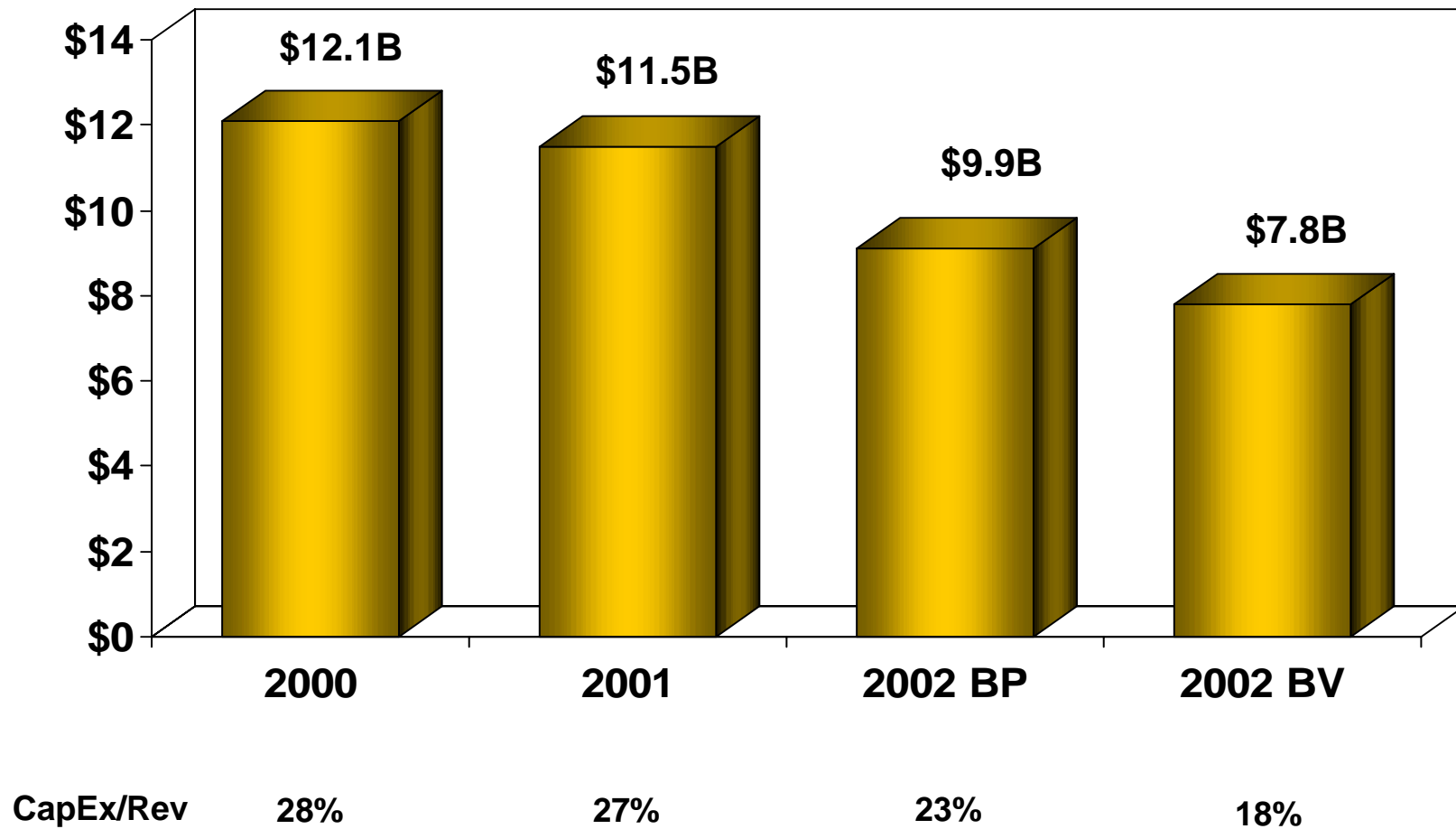
Financial Trends - Telecom

	<u>1Q '01</u>	<u>2Q '01</u>	<u>3Q '01</u>	<u>4Q '01</u>	<u>1Q '02</u>	<u>2Q '02</u>
Revenue Growth	2.9%	0.3%	-1.9%	-3.6%	-4.1%	-4.4%
Expense Growth	1.6%	-0.3%	0.8%	-2.3%	-3.6%	-3.2%
Operating Income Growth	7.0%	2.3%	-10.8%	-8.4%	-5.6%	-8.2%
CAPEX (\$M)	3,339	3,067	2,064	3,010	1,479	1,696
Force	194,756	194,632	189,478	179,932	177,834	173,562

Access Line Growth



Capital Expenditures



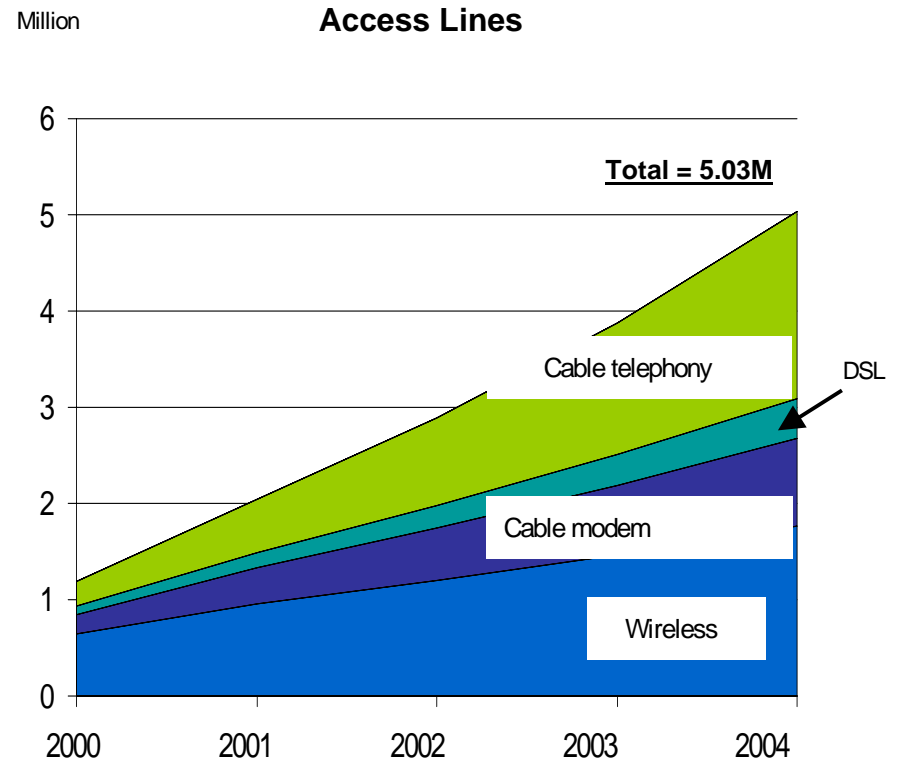
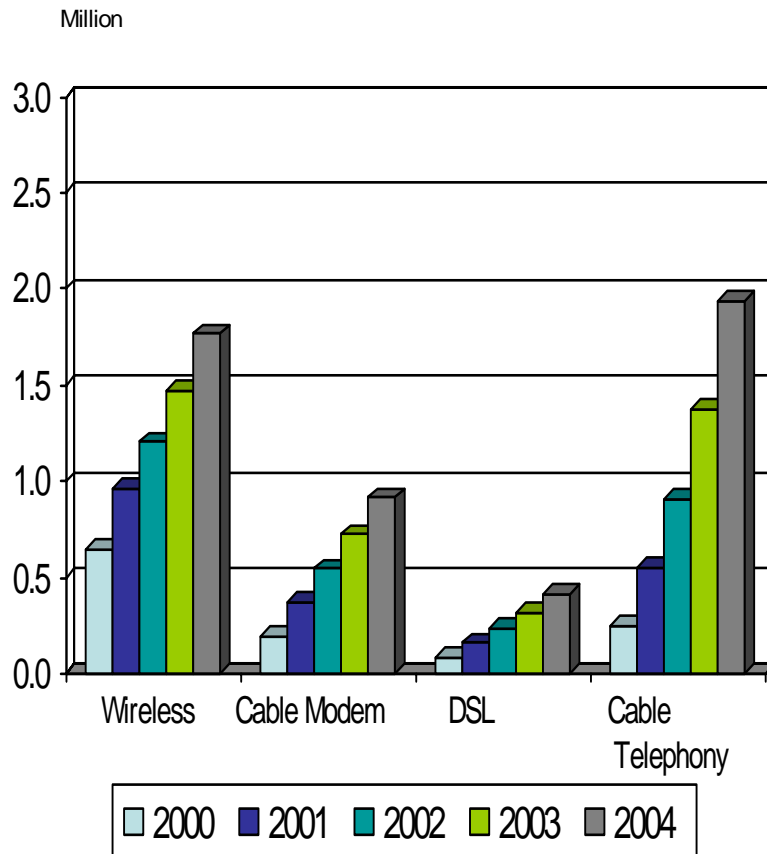
Wireline to Wireless Substitution

- Wireless is Impacting Second Line Growth
- Calling Packages Significantly Impacting Toll and Public Revenues
- Wireless Minutes to Landline Increased 38% through May ' 02
- Wireless Significantly Impacting MOU per Line

Wireline to Cable/VoIP Substitution

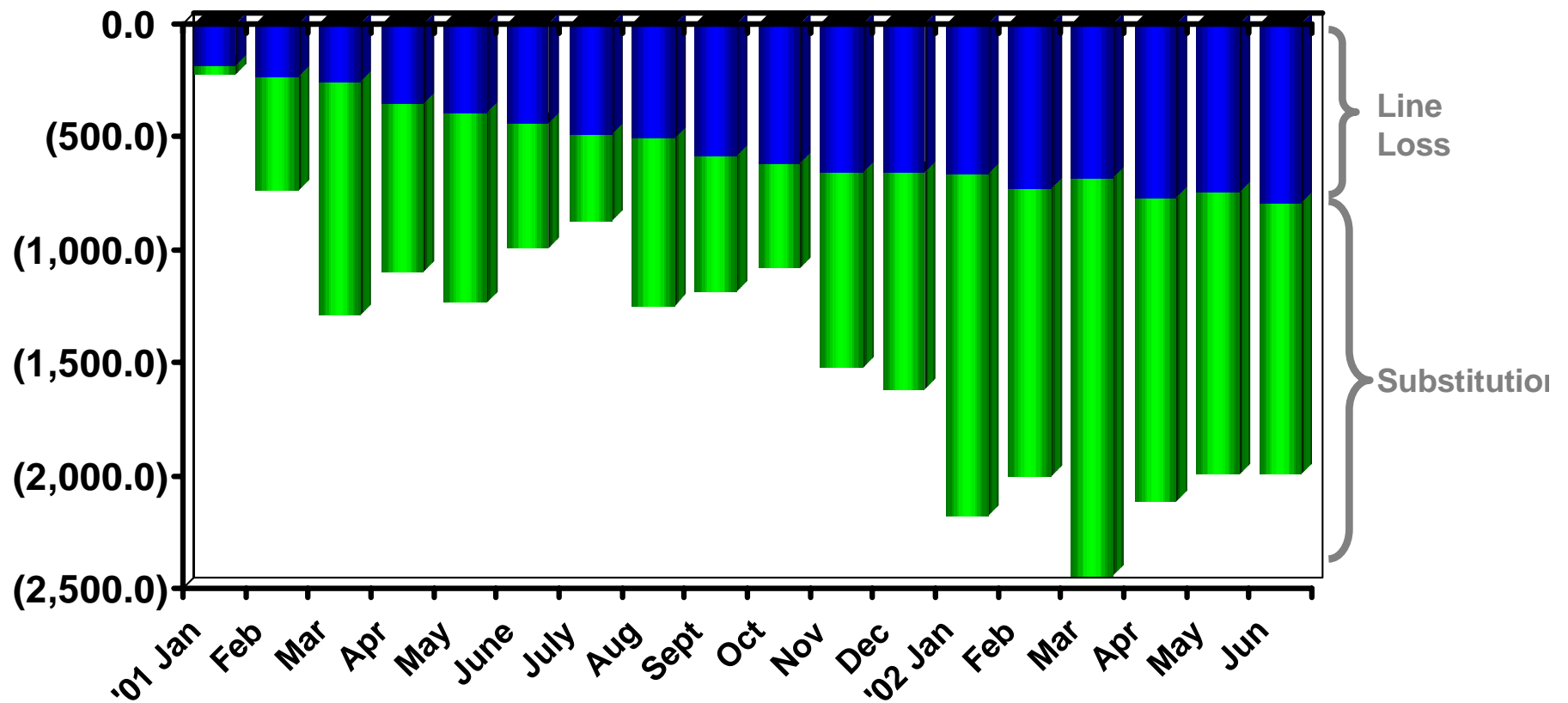
- Cable Telephony Impacting Switched Access Line Growth
- In CO' s where we have seen Cable Telephony competition, VZ has experienced a 15% residential access line loss over the last two years
- Initial rollouts of VoIP-based cable telephony is expected in 2003, scaling up to become a market factor by 2005

Substitution - Macro View



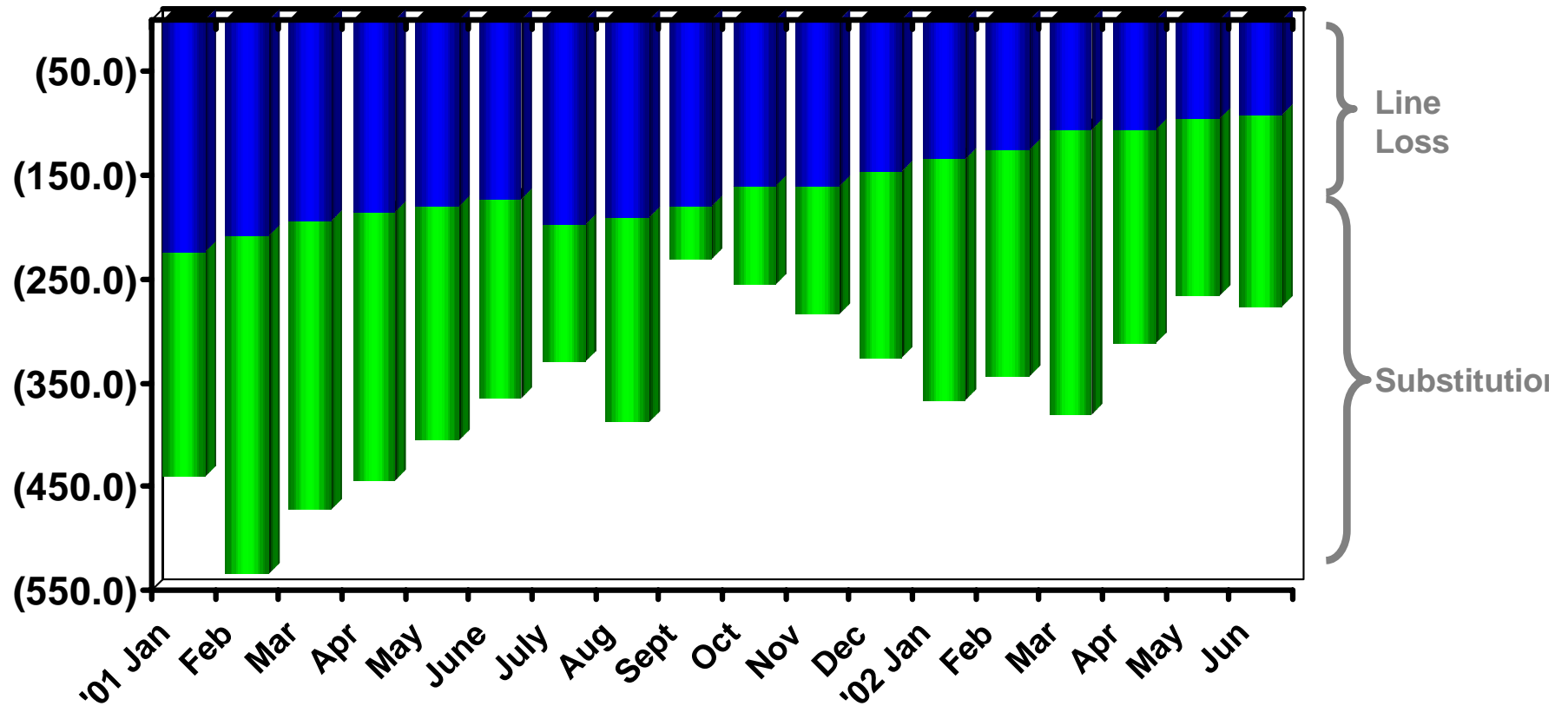
Substitution Impact on Access MOUs

YOY Incremental Usage Change

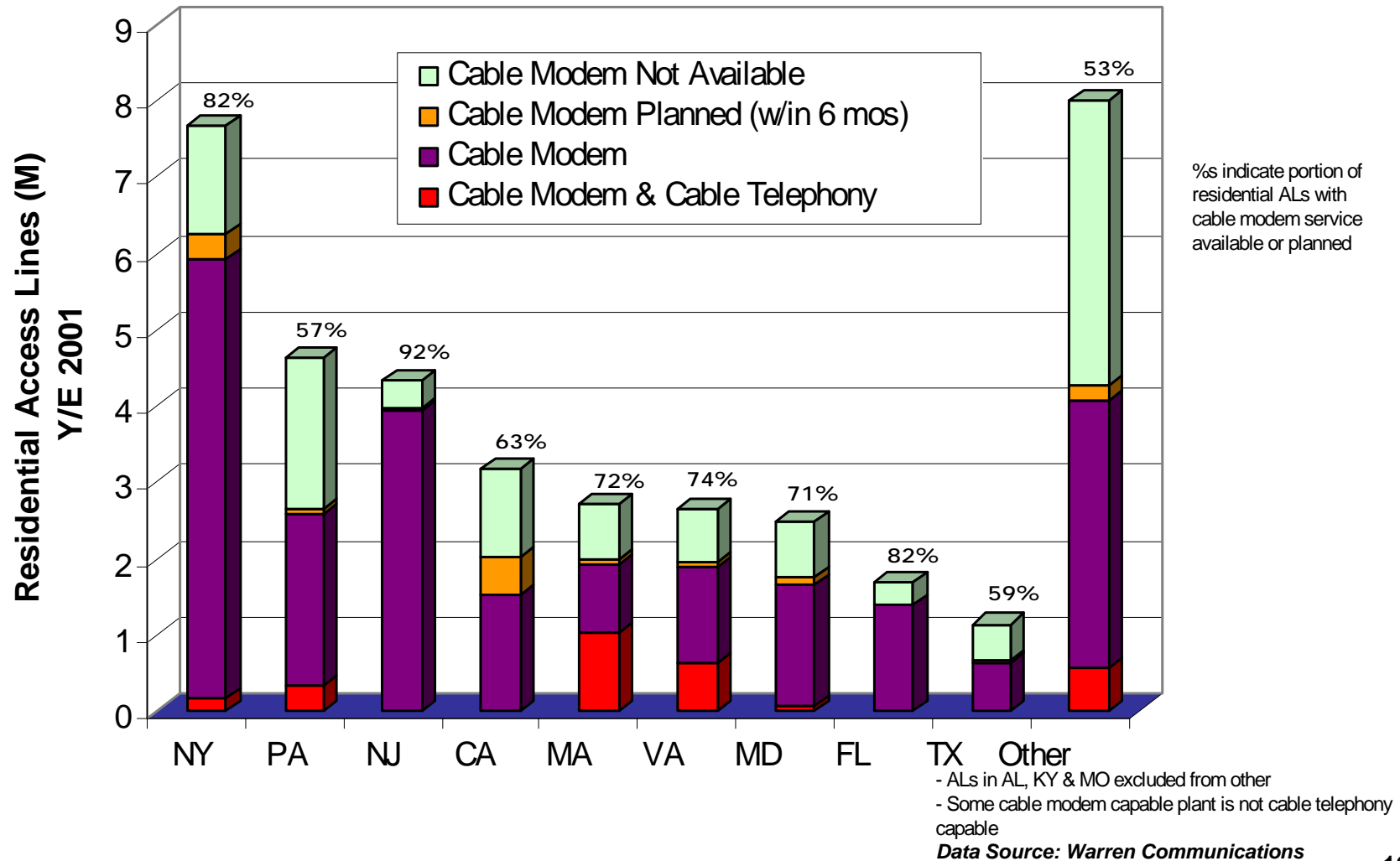


Substitution Impact on Toll MOUs

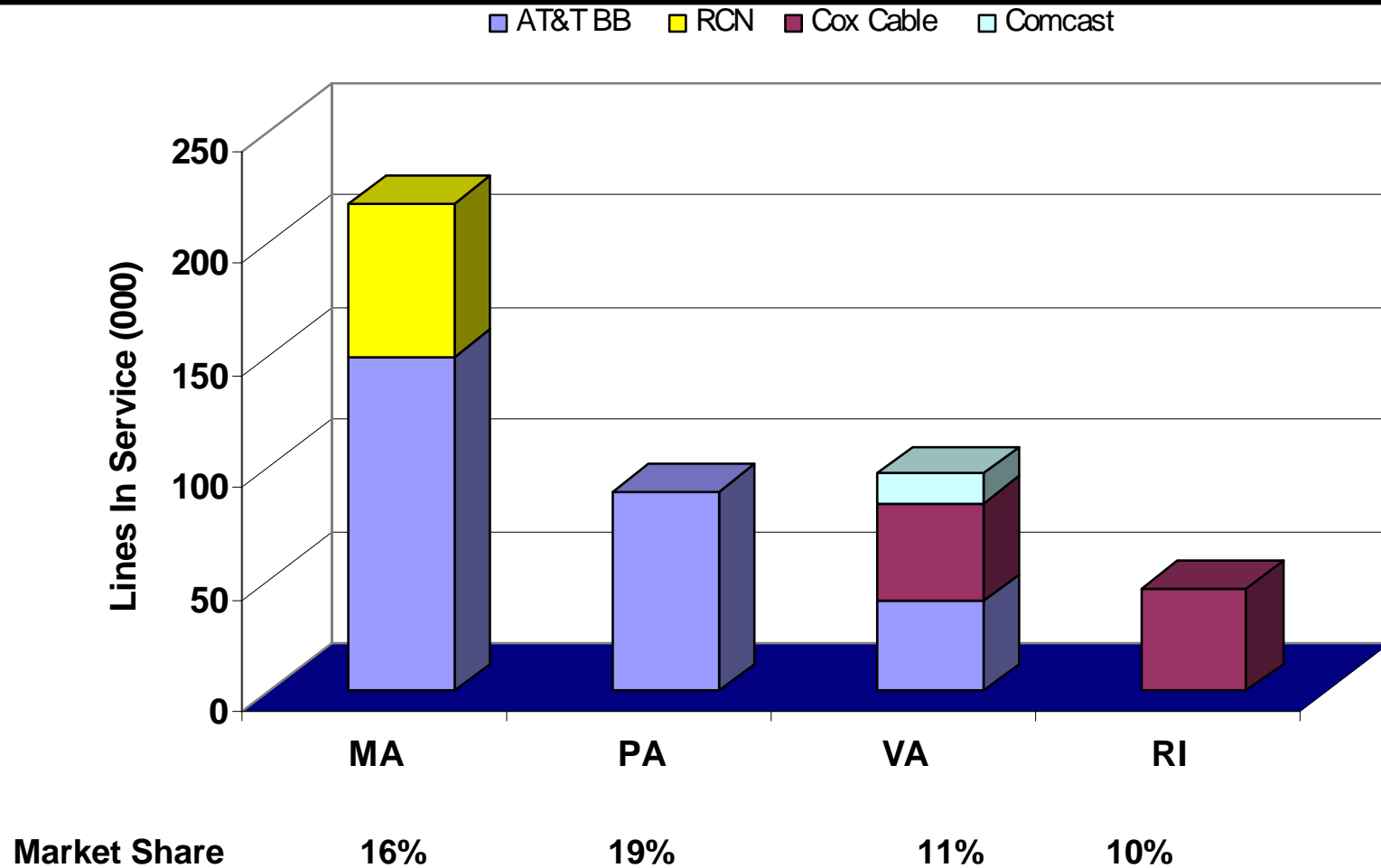
YOY Incremental Usage Change



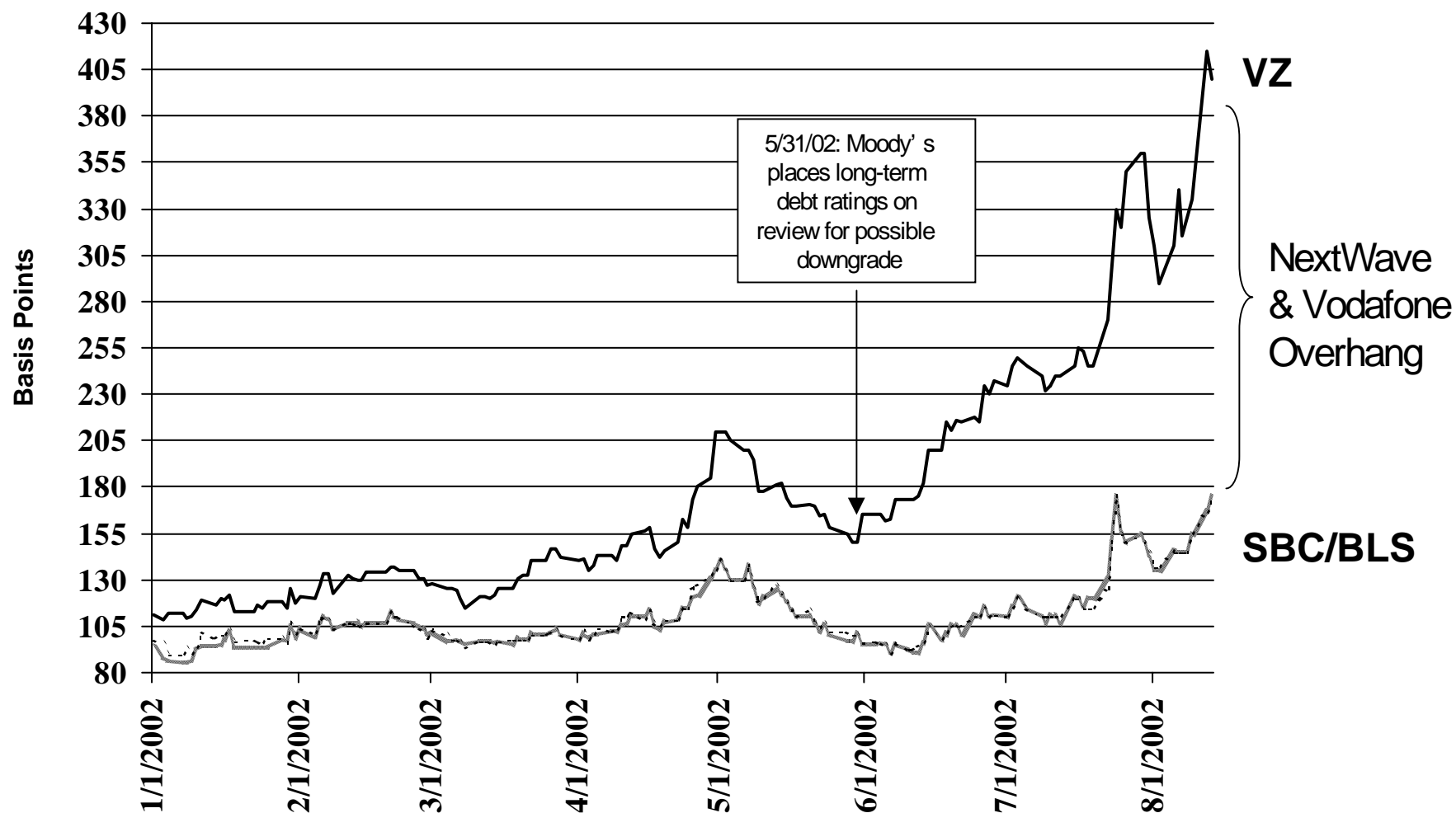
Cable Infrastructure Status Within VZ Footprint



Cable Telephony Impact on Residential Access Lines



Comparison of 10-Year Credit Spreads



UNEs and Pricing

- The Investment Community is concerned that there is significant vulnerability to UNE-P leading to long term earnings declines.
 - “Declining UNE pricing, particularly if it cascades from state to state and Region to Region, could have a very significant negative impact on the revenues and earnings of the RBOCs.” (Anna Maria Kovacs - Commerce Capital Markets, May 1, 2002)
 - “The relative meager cost savings associated with the shift in access line mix to more wholesale lines exacerbates the revenue decline impact on EBITDA margins. While the Bells lose roughly 60% of the revenues when they lose a line to a UNE-P based competitor, we estimate that they retain 95% of the costs.” (Marc Crossman - JPMorgan, July 12, 2002)
 - “To create UNEP prices that may be attractive to the CLECs, regulators are forcing the RBOCs to wholesale their network at rates that are significantly below the costs that the financial community looks at.” (Anna Maria Kovacs - Commerce Capital Markets, May 1, 2002)
- On August 13, 2002, Moody's Investors Service said it may cut SBC long-term debt ratings due to weak revenue trends, unfavorable regulatory pricing policies and competition.

UNEs and Pricing

- UNE pricing has spiraled downward in key states
 - The price of UNE-P is now only \$14 - \$20
 - States have set discounts against below cost residential retail rates rather than on any realistic measure of cost
- Lower revenues due to deep UNE discounts cannot be offset by cost reductions
 - UNEs eliminate minimal costs (billing, marketing, sales)
 - Significant fixed costs related to network provisioning, maintenance and repair can not be avoided
 - Customer churn increases real cost per subscriber
- Sustainable competition will come from competing facilities
 - CLECs already serve approx. 23M lines (1300+ circuit switches)
 - CLECs serve approx. 20M business lines
 - Cable Telephony is available to more than 10M homes
 - An estimated 10M wireline lines have been lost to wireless
- AT&T's claim that low cost UNE-P leads to greater facilities-based competition is false.
 - AT&T has made no effort to transition its mass market customers to its own switches

UNE Pricing Below Cash Operating Costs

	VZ	SBC	BLS
Est. Avg. Residential Revenue per Line	\$34.44	\$34.84	\$32.01
Avg. Cash Cost per Line	\$38.81	\$38.26	\$38.16
Avg. Total Cost per Line	\$51.30	\$49.83	\$51.30
Avg. UNE-P Price	\$19.81	\$21.54	\$26.06
 UNE-P as % of Residential Revenue per Line	 58%	 62%	 81%
UNE-P as % of Cash Cost per Line	51%	56%	68%
UNE-P as % of Total Cost per Line	39%	43%	51%

Source: Anna Maria Kovacs - "The Status of 271 and UNE-Platform in the Regional Bells' Territories", May 1, 2002

Consumer & Business UNE-P

	<u>Consumer</u>	<u>Business</u>
Revenue per Line	\$35	\$50
UNE - P Price	\$16	\$16
\$ Margin Opportunity	\$19	\$34

Enterprise Market – Special Access to UNE Pricing

- The major carriers already control 2/3 of the enterprise market
- High capacity special access is already competitive
 - more than 1/3 of special access demand is served by other competitors
 - The FCC has found that more than 1/2 of VZ special access is competitive and has granted pricing flexibility
- UNE rates provide a huge discount as compared to competitive retail rates

Special Access to EEL Discounts

Private Line	-58%
Intrastate Special Access	-58%
Interstate Special Access	-47%
Avg. Private Line + Special Access	-50%

Special Access Revenues = \$3.5B

Wholesale Receivables Issues

- Wholesale receivables, past due balances and uncollectible expense continue to increase dramatically
- Need deposit and advanced payment options similar to those already in-place at other carriers
- VZ proposal adds objective triggering events for requiring a two month security deposit (which the current tariff permits) and adds an option of requiring one month payment in advance
 - Nonpayment/late payment of bills
 - File for bankruptcy
 - Senior debt securities downgraded to junk status
- Advanced payment option shifts the timing of when carriers pay but does not result in higher payments or increased cash problems for troubled customers
- May refuse additional service or discontinue service on seven days written notice if a customer fails to pay or does not comply with the deposit or advance payment provisions

WorldCom Bankruptcy

- The FCC should **not** intervene to “save” WCOM. The FCC **should** protect end users and healthy telecom providers
- The FCC can not allow WCOM to get free service during bankruptcy - the FCC should require WCOM to immediately issue customer termination notices if the WCOM bankruptcy is changed to Chapter 7 or a sale is ordered under Chapter 11
- The FCC should ensure that any purchaser of WCOM does not gain a network “free of debt” at the expense of VZ or other telecom companies. Any purchaser of WCOM has to cure all outstanding amounts owed to carriers if it wants to continue to use our network facilities
- The FCC must prevent any re-invented WCOM from having an unfair advantage that it uses to injure honest telecom companies